

Budget Brief – Information Technology Services (ISF)

NUMBER CFAS-05-18

SUMMARY

The Division of Information Technology Services (ITS) provides centralized data processing and communication service to all agencies of state government as well as various local entities. The division has authority to establish rates and collect fees for those services.

ITS' data processing services include software licensing and development, central computing, wide area network connectivity, and consultation. Its telecommunications services include negotiating the purchase, lease or rental of private or public telecommunications services, and operating the state's network of microwave sites.

ISSUES AND RECOMMENDATIONS

Successful Cost Containment

Last General Session, ITS projected an FY 2004 loss of nearly \$3.5 million. This would have been in addition to the agency's nearly \$5 million loss in FY 2003.

However, through prudent cost management, ITS cut its FY 2004 operating loss to \$280,000 (\$730,000 after write-offs). The ISF expects to break even in FY 2005 and FY 2006. The Analyst commends ITS and its acting director, Dave Fletcher, for this accomplishment.

Inefficient Cross-subsidy Continues

While having successfully contained certain costs, ITS still has not adequately addressed revenue disparity among its product families. Of ITS' eleven revenue generating product families, less than half are projected to break even in FY 2006 even after proposed rate changes. As has been the case in the past, mainframe users continue to subsidize other ITS operations – by more than \$3 million in FY 2006. These planned inequities not only disproportionately charge certain users, they send false price signals to state agencies, potentially leading to unnecessary expenditure of tax resources.

Unauthorized and Unclear Factor Distorts Mainframe Rates and Associated Revenue

The Budgetary Procedures Act states that “an internal service fund agency may not charge rates, fees, and other amounts that exceed the rates, fees, and amounts established by the Legislature in the appropriations act.” (UCA 63-38-3.5) Mainframe rates authorized by the Legislature are “per hour” - \$650 per prime-time hour for FY 2005.

ITS, however, exacts its revenue from customers using a heretofore unauthorized “normalization” factor. For example, rather than paying \$650 for an hour's work a customer running a given application on ITS' newest mainframe may pay nearly ten times that amount. The normalization factor was intended to level playing fields among various mainframe operations and processors. It has been used for many years. ITS cannot, however, document how and when normalization factors have been determined, nor has it sought authorization for such altered rates.

Figure 1: Administrative Services - Information Technology Services - Budget History

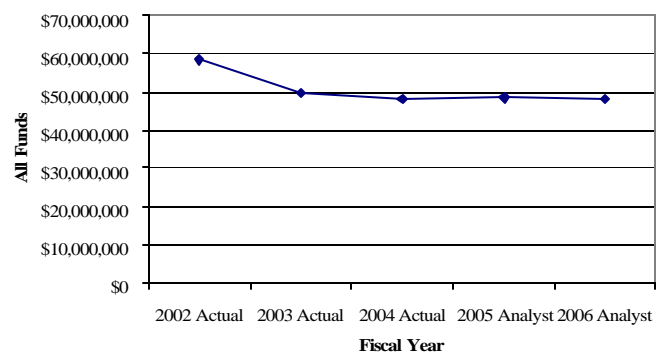
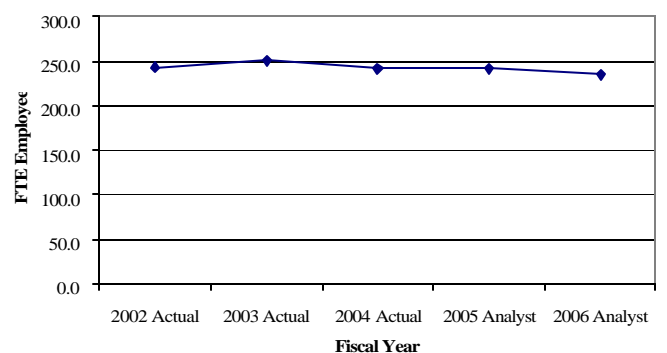


Figure 2: Administrative Services - Information Technology Services - FTE History



The Analyst believes ITS' current practice is in violation of the Budgetary Procedures Act and should be modified such that ITS:

1. Develop and implement a standard procedure for establishing normalization factors;
2. Seek approval from the Legislature of mainframe rates that reflect the normalization factor;
3. Publish guidelines on applying the normalization factor for ITS' mainframe users.

ACCOUNTABILITY DETAIL

In an attempt to improve accountability from public agencies, the Fiscal Analyst has included below various performance measures for ITS. These measures are not tied to ITS' budget, but instead serve as additional data points on which to make budget decisions. These measures must be considered in conjunction with independent variables outside an agency's control that also impact the measures.

Cost Recovery Status

By statute, Internal Service Funds are required to recover their costs by charging other agencies. They are not expected to earn a profit. Figure 3 demonstrates the degree to which ITS has profited or lost over the past five years. Assuming an ISF has sufficient retained earnings to fund capital investment, its long-term target for this measure should be zero.

Network Reliability

One of ITS' core businesses is network connectivity. The agency puts a premium on "up-time" – the proportion of a given period of time in which the network operates as expected. ITS has set "four-nines" (99.99%) as its target for network up-time. Figure 4 documents the ISF's performance on this measure for the last three years.

Customer Satisfaction

As an internal service fund, ITS relies upon its customers for revenue. It therefore must respond to consumer demands and provide good customer service. It recently began measuring customer satisfaction on a scale of one to five (with five being "extremely satisfied"). Figure 5 shows average results for the last six months of fiscal year 2004 and the first six months of fiscal year 2005. Also shown is a target of 4.5 for fiscal year 2006.

Currently, customers can only access the survey if they submit a trouble ticket. ITS should consider also making the survey available on its web site.

Figure 3: Cost Recovery Status

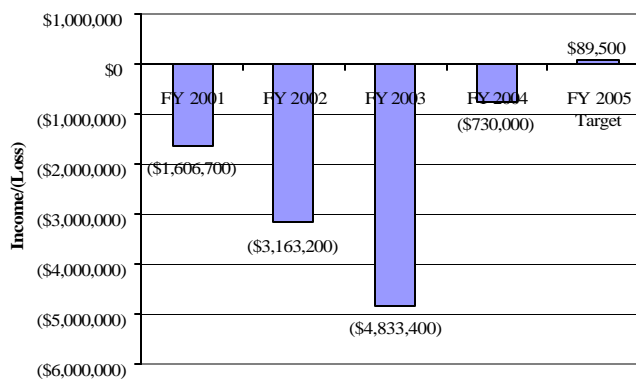


Figure 4: Network Reliability

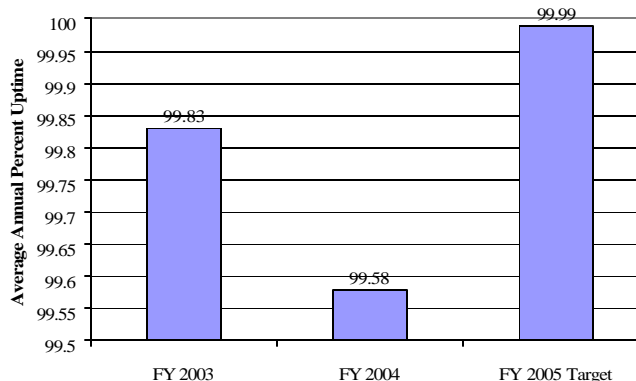
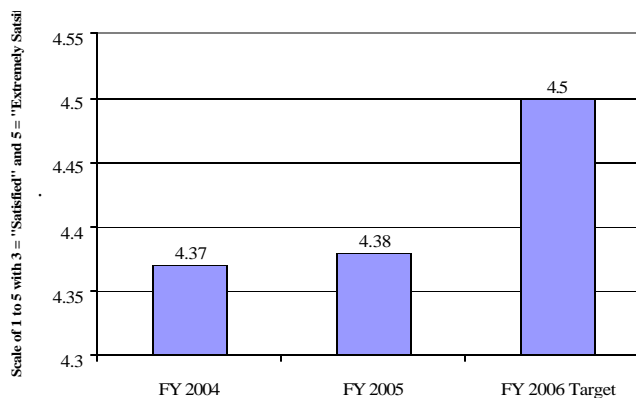


Figure 5: Customer Satisfaction



BUDGET DETAIL

Statute requires that the Legislature approve an internal service fund's revenue, its full-time equivalent employment level, its rates, and its capital outlay amount. The Division of Information Technology Services Internal Service Fund receives all of its revenue in the form of Dedicated Credits –charges it makes to other state agencies as well as some local governments.

On the expenditure side of the balance sheet, ITS has changed the way it accounts for internal costs, those costs that accrue between one product family and another. In FY 2004 and FY 2005, ITS attempted to this using its external rates. However, as discussed on page 1, ITS' rates do not equal its products' costs. As a result, ITS was overstating internal costs in some areas, and overstating revenue in others. Beginning in FY 2006, ITS will allocate costs to internal product families based upon total cost and utilization, not based upon rates.

For more details on ITS, its budget, as well as historical trends, see pages 18-1 through 18-18 of the Capital Facilities and Administrative Services Appropriations Subcommittee's Compendium of Budget Information for the 2005 General Session.

Budget Recommendation

For fiscal year 2006, the amount of revenue expected by ITS is \$47,920,600. This amount may change based upon consumption patterns. The ISF continues to require 241 full-time equivalent employees. ITS' rates are discussed in Issue Brief CFAS-05-10.

With regard to Capital Outlay, the Legislature granted ITS \$750,000 in nonlapsing FY 2003 authority, and \$1,261,300 in FY 2004 nonlapsing authority. It appropriated \$6,072,500 in new outlay authority to ITS for FY 2005. ITS will report to the subcommittee what, if any, amount it will need to carry forward from FY 2005 into FY 2006. The analyst is recommending no additional capital outlay authority for FY 2006.

Intent Language

In the past, the Legislature has through intent language authorized ITS to transfer FTE positions from other parts of state government into the internal service fund. ITS has used this language a few times in the past to consolidate state IT functions. However, the Office of Legislative Research and General Counsel has advised the Legislature that the FTE intent language is not germane to an appropriations act and therefore requires a statutory change. The Analyst does not recommend the intent language for FY 2006.

LEGISLATIVE ACTION

This section is a summary of what actions might be taken if the Capital Facilities and Administrative Services Subcommittee wishes to adopt the recommendations made in this document.

1. Approve Dedicated Credits revenue of \$47,920,600 for FY 2006.
2. Approve 235 full-time equivalent employees for FY 2006.
3. Approve the rates discussed in Issue Brief CFAS-05-10.
4. Approve carry-forward capital outlay authority in an amount to be determined by the subcommittee pending ITS' report on capital acquisition.

Members of the subcommittee may also consider running a bill that changes statute to allow ITS to transfer-in new full-time equivalent positions when doing so will result in efficiencies.

BUDGET DETAIL TABLE

Administrative Services - Information Technology Services						
Sources of Finance	FY 2004 Actual	FY 2005 Appropriated	Changes	FY 2005 Revised	Changes	FY 2006 Analyst*
Dedicated Credits - Intragvt Rev	48,262,100	47,553,800	926,200	48,480,000	(559,400)	47,920,600
Total	\$48,262,100	\$47,553,800	\$926,200	\$48,480,000	(\$559,400)	\$47,920,600
Programs						
ISF - ITS Administration and Finance	0	24,900	(24,900)	0	0	0
ISF - Network Services	12,808,900	12,011,400	1,273,800	13,285,200	(576,000)	12,709,200
ISF - Voice Services	16,805,100	16,108,400	(177,300)	15,931,100	(1,350,000)	14,581,100
ISF - Computing	0	17,200	(17,200)	0	0	0
ISF - Mainframe Hosting	38,929,200	14,048,500	24,573,100	38,621,600	(24,806,500)	13,815,100
ISF - Desktop/LAN Support	4,790,900	5,011,900	23,200	5,035,100	(217,600)	4,817,500
ISF - Storage Services	4,277,000	4,730,800	(453,800)	4,277,000	(3,363,400)	913,600
ISF - Web Hosting	203,500	1,203,600	(869,600)	334,000	0	334,000
ISF - Application Development	891,600	2,972,000	(2,080,400)	891,600	(329,100)	562,500
ISF - Reporting Services	0	153,300	(153,300)	0	127,000	127,000
ISF - Wireless Tech Services	1,923,400	2,395,700	(469,800)	1,925,900	(1,041,700)	884,200
ISF - ITS Support Services	502,000	521,200	239,900	761,100	25,700	786,800
ISF - Clearing	(32,869,500)	(11,645,100)	(20,937,500)	(32,582,600)	30,972,200	(1,610,400)
Total	\$48,262,100	\$47,553,800	\$926,200	\$48,480,000	(\$559,400)	\$47,920,600
Categories of Expenditure						
Personal Services	17,267,600	17,101,400	567,100	17,668,500	(317,900)	17,350,600
In-State Travel	26,000	70,400	0	70,400	0	70,400
Out of State Travel	29,100	29,600	0	29,600	0	29,600
Current Expense	17,575,100	16,288,000	1,477,100	17,765,100	618,900	18,384,000
DP Current Expense	7,178,100	7,679,900	(361,400)	7,318,500	67,700	7,386,200
DP Capital Outlay	(74,500)	5,910,200	(5,910,200)	0	0	0
Capital Outlay	5,796,500	0	4,908,700	4,908,700	(920,500)	3,988,200
Other Charges/Pass Thru	742,200	753,900	(34,700)	719,200	(7,600)	711,600
Total	\$48,540,100	\$47,833,400	\$646,600	\$48,480,000	(\$559,400)	\$47,920,600
Profit/(Loss)	(\$278,000)	(\$279,600)	\$279,600	\$0	\$0	\$0
Other Data						
Total FTE	241.0	241.0	0.0	241.0	(6.0)	235.0
Authorized Capital Outlay	5,732,800	6,072,500	0	6,072,500	728,000	6,800,500
Retained Earnings	5,453,400	3,569,000	1,884,400	5,453,400	0	5,453,400
Vehicles	24	24	0	24	(1)	23

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.